

Executive Summary

America is nearing a massive demographic shift, as millions of baby boomers enter retirement and the nation's median age rises dramatically. If we remain on our present course, America will face labor shortages, government deficits, and a decreased standard of living for years to come. We must respond with new policies that encourage greater workforce participation by older workers.

Introduction

America is in the throes of a demographic tidal wave. In only seven years, 76 million baby boomers begin to reach the traditional retirement age of 65. Because of declining birth rates throughout the 1980s and 1990s, there are simply not enough young workers to replace them. We risk an unprecedented labor shortage affecting every sector of the economy.

Unless this emerging national issue is mitigated, America will face decreased GDP growth, spiraling government deficits, sharp increases in the cost of government entitlement programs, and lower levels of corporate productivity. Taken together, these add up to an economic "perfect storm."

Yet the situation is far from hopeless. John Glenn rocketed into space at age 77. Jack McKeon led the Florida Marlins to the World Series at age 72. Alistair Cooke reported for BBC until age 95. Older workers can continue to make contributions past the age of 65.

These are not isolated anecdotes. In poll after poll, older workers report a desire to continue working past traditional retirement age. And they are capable. Today's older workers are healthier than any previous generation and work in a service-oriented economy that emphasizes brain power over brawn.

We can meet this challenge. But is America prepared to bring millions of older workers back into the workforce?

Unfortunately, older workers and employers alike are limited by outdated perspectives, counterproductive pension plans and human resource practices, and misdirected government policies. Many employers mistakenly believe that moving jobs off-shore, increasing immigration quotas, or productivity enhancements through technology will stem the labor shortage, but these will only have a minor impact on a potential mega-problem. Older workers will be an essential workforce ingredient in the future.

There are many specific actions that we can take to maintain older workers participation. Stereotypes about the older worker must be combated. Pension plans that create incentives for workers to retire must be altered. Comprehensive human capital planning is a must.

But we should not undertake isolated actions. Changing demography will impact every component of society; accordingly, our response must be comprehensive and coordinated. The work begun in the business, academic, and public spheres must be tied together into a cohesive whole.

The field of older adults and work is not simply an interesting field of study. It must be made a national priority. If we wait, it will be too late to avoid crippling deficits, corporate brain drain, and a lower standard of living for all Americans. We must act soon.

Our Current Circumstances

Whether we are prepared or not, the issue of the aging American workforce is going to explode in the next few years. The General Accounting Office (GAO) predicts a 10 million **worker shortfall** by 2010. To put this into perspective, America had never in its history experienced a labor shortage before 1994, and has never experienced a 10 million worker shortfall.

The Federal government has been the first employer hit by the **retirement wave**, and many agencies are struggling to carry out their missions. With tens of thousands of government workers retiring, government hiring managers are simply unable to find enough qualified replacements.

As this retirement wave spreads, employers will have no reasonable choice but to recruit and retain older workers. **Outsourcing** is not the solution, as there are simply too many jobs that must take place domestically. Increased **immigration** is no panacea either: the labor shortage is so severe that even greatly increased immigration cannot compensate. The labor shortage requires new thinking.

Government entitlement programs will also drive a renewed look at older workers. Already, 1 out of every 14 dollars in the United States goes to paying for Medicare, Medicaid, and Social Security, but by 2030 this will increase to 1 out of every 8 dollars. As more people retire, these three programs inevitably cost more. And the cost will become totally unsustainable.

Informed Sources

One-half of the professional staff at the Department of Housing and Urban Development is already eligible for retirement.

Boston University Professor of Economics Laurence J. Kotlikoff explains, "Even an immediate and sustained doubling of immigration – an extreme response by most policymakers' standards – does very little to mitigate the fiscal stresses facing the developed world."

A December, 2003 report by the Congressional Budget Office finds that, "Unless taxation reaches levels that are unprecedented in the United States, current spending policies will probably be financially unsustainable over the next 50 years. An ever-growing burden of federal debt held by the public would have a corrosive and potentially contractionary effect on the economy."

"Generation X" is 15% smaller than the "Baby Boom" generation.

In 1950, the worker-retiree ratio was 7.5 to 1. Today, it is 5.0 to 1. By 2020, it will be 3.6 to 1, and by 2030, 2.8 to 1.

The problem is exacerbated by **a decline in the number of workers to support the retired**. Even as the cost of entitlement programs is rapidly increasing, the number of workers to pay for them is decreasing. Cost increases and revenue decreases is a bad equation for any business, and it is a bad equation for our nation as well.

But if macroeconomic factors may necessitate a changing policy towards older workers, it is the older workers themselves who must continue to participate in the workforce. In truth, many older workers have no choice because their **retirement savings are inadequate**.

Even for those older workers who do have enough money to retire, society's **changing attitudes towards aging** are promoting continued work participation. New research has shown that – with appropriate activity – both cognitive and physical ability can be successfully maintained almost indefinitely. Many baby boomers are eager to maintain an active lifestyle, a desire that dovetails perfectly with the nation's economic needs.

What Is Being Done

The nation faces a true challenge. But **awareness of the issue is increasing**. Non-Governmental Organizations are organizing conferences that focus on the effects of an aging society, while legislators are convening panels and hearings that have led to forward-thinking legislation. The government agency staffing crisis in particular has spurred action. The July, 2003 conference on older workers convened by the National Academy for Public Administration and NOWCC testifies to this fact.

Investigations are moving forward on other fronts as well. The academic community, such as the MIT Age Lab, is paying greater attention to the issue. But research need not be purely academic. Increasingly, businesses are **developing products** which cater to needs of an aging society, like the ongoing work at Microsoft to make computers more accessible to the elderly.

Perhaps more importantly, the corporate world is recognizing the older adult as more than a consumer, but as a needed worker. This is spurring **resource development** to enable workforce analysis and new recruitment and retention policies. A few pioneering companies have programs to attract older workers, while

According to the Economic Benefits Research Institute, the percentage of older workers who are “not at all confident” about having enough money for retirement has increased by 10% in the past 10 years.

A Harris survey of pre-retirees says that 95% wish to continue working in some capacity even if they do not get paid very much.

On the Federal level, innovative legislation to encourage retention of older workers includes P.L. 106-501 Older American Act Amendments of 2000, P.L. 98-313 Environmental Programs Assistance Act of 1984, P.L. 90-202 Age Discrimination in Employment Act of 1967.

On January 28, 2004, Congress approved the “NASA Flexibility Act of 2003,” designed to address an expected “brain drain” at the agency as older workers retire.

Aerospace Corp., a research and development firm, has developed a phased retirement program for its employees. At the other end of the labor scale, CVS is actively recruiting older workers to keep its pharmacies staffed.

The 2003 Older Worker Survey carried out by the Society for Human Resource Management (SHRM), NOWCC, and the Committee for Economic Development (CED) has

professional associations are starting to spread the word to their members.

informed SHRM's thousands of member HR Directors about older workers.

These are the few bright spots the stand out in our response to a challenging demographic trend. Still, if we can build on these initial activities and continue to develop a solid foundation of resources, we can make real and lasting progress.

What We Still Need to Do

The evidence confirms that we have both the need and the capability to confront the challenges of changing workforce demography. But we must refocus our approach. If we do not confront new policy realities, shed stereotypes, inform the public, and help organizations update business practices, America will fail this test. Change is inevitable – success is not.

Policies developed decades ago have remained stubbornly immobile. **Social Security**, created in 1935, is today distorting the labor market in ways its creators could not have predicted. The program's earning limits and retirement ages must be altered to remove disincentives to work and protect fiscal solvency.

Defined benefit pension plans must be revised as well. Millions of Americans have pensions that were designed for a unionized, manufacturing economy. These plans actually penalize worker for working past retirement age. In fact, the plans often go so far as to encourage workers to retire before normal retirement age! As with Social Security, policy changes need not force people to continue working, but we must stop punishing those who wish to continue to work, and the playing field must be level.

Outdated business practices and policies are also contributing to the problem. **Human resource practices** formulated to help highly-educated baby boomers enter the workforce in the 1960s are today pushing those same highly-educated baby boomers out of the workforce. When employers offer **early retirement programs** instead of phased retirement, and **career dead ends** instead of training opportunities, it is no surprise that so many older workers drop out of the work force. Instead, we must begin to offer older workers the opportunity to

According to the CED, for “lower income workers, the benefit structure of Social Security continues to punish work.”

The CED reports that, “A survey of 1000 pension plans showed that continued work after early retirement eligibility typically reduced the lifetime value of a pension by the equivalent of a 30 percent pay cut.”

The Urban Institute finds that under defined benefit pension plans, “employees often receive their most valuable benefit accruals earlier than the normal retirement age... Moreover, the majority of plans contain early retirement options that provide a substantial incentive for retirement before normal retirement age.”

The CED reports that “Workers over the age of 55 are far less likely to receive training to improve their skills than any other age group.”

An Accenture study of the chemical industry argues that, “Although early retirements have been standard practice in the chemicals industry for years, companies will need to find ways to extend the tenure of their most valuable older employees as knowledge-retention and recruiting problems become more acute. One way is through ‘flexible phased retirement,’ or allowing employees who have become eligible for retirement to create more varied and

further their careers.

Companies would change their policies if they were aware of the looming labor crunch. But few companies have carried out the **labor force analysis** required to understand how the retirement wave will impact them. This is a particular disappointing in light of studies showing that labor force planning is a fast and non-disruptive process and when properly focused.

The negative effects of outdated practices are compounded by **stereotypes** – both among hiring managers and the older workers themselves! If hiring managers believe that older workers are no longer capable, and older workers believe in the inevitability of retirement, then the retirement wave will continue.

Americans have not yet connected the issue to their own lives. Truly, demographic change will impact everyone: employees and employers; workers and retirees; taxpayers and entitlement recipients. But few Americans are aware of the issue, and even fewer can answer the two key questions: “**How does the aging workforce impact me?**” and “**What can I do to prepare?**” Until we can identify and disseminate good answers to these questions, businesses cannot implement new policies, older workers cannot plan new career paths, and government cannot marshal the political will necessary to affect change.

Our knowledge gap is the direct result of a lack of **leadership focus**. Although efforts to address the issue of older adults and work have begun, they have been isolated, disconnected, and sometimes stillborn. Unless leaders step forward to raise awareness, challenge perceptions, and guide changes in policies and practices, our response will be too little, too late.

shorter work schedules.”

The 2003 Older Worker Survey carried out SHRM, NOWCC, and CED indicates that 79% of respondent companies are doing nothing to prepare for an aging workforce.

The Center for Organizational Research finds that “Greater aging workforce challenges do not necessarily require bigger organizational responses” but that “An organization’s first response to the challenges of an aging and soon-to- retire workforce must be to secure accurate data...having such information enables an organization to plan effectively and to identify areas that need immediate attention.”

In a recent AARP poll, 30% of older workers identified age discrimination as a barrier to continued employment.

In 2000, Senator Chuck Grassley (R-Iowa) and Representative Earl Pomeroy (D-ND) introduced a bill to facilitate phased retirement programs. The bill was voted down.